

# Fed Chair Powell highlights importance of independent Fed

By Christopher Rugaber

May 25, 2018 – *The Globe and Mail / The Associated Press*

Federal Reserve Chairman Jerome Powell warned Friday that the Fed's independence from political pressure must be respected if it is to succeed in controlling inflation, maximizing employment and regulating the financial system.

His remarks Friday came after Kevin Warsh, a former Fed official who President Donald Trump interviewed for the chairman post, said in an interview earlier this month with Politico that Trump did not appear to view the Fed as an independent body. He said Trump was direct about how he thought interest rates should be managed.

Powell, in a speech in Stockholm, warned against taking that independence for granted given its recent success in keeping inflation low.

"We must not forget the lessons of the past, when a lack of central bank independence led to episodes of runaway inflation and subsequent economic contractions," Powell said in prepared remarks.

Following Warsh's comments regarding Trump, members of the Senate Banking Committee quizzed two of Trump's nominees for the Federal Reserve Board, Richard Clarida and Michelle Bowman, about the importance of Fed independence.

Both said yes when asked by Sen. Sherrod Brown, D-Ohio, whether they thought it was important for the Fed to remain free from White House influence. Clarida said that neither Trump nor any other member of his administration had said anything during his interviews that would be compromising to the Fed's independence.

"I had a number of meetings over several months with a number of officials, including the president, and in no meeting, at no time, did I ever have any reason to question the independence of the Federal Reserve," Clarida said then.

The double-digit inflation of the late 1970s is often blamed, in part, on then-Federal Reserve Chairman Arthur Burns, who was reluctant to raise short-term interest rates high enough to choke off inflation for fear of causing massive unemployment.

Burns and other Fed officials were pressured by President Richard Nixon, who was leery of any political blowback from rising unemployment.

Inflation remained high into the early 1980s until Paul Volcker, appointed Fed Chair by President Jimmy Carter, pushed short-term interest rates to nearly 20 per cent. That sparked a sharp recession, but it also reined in inflation.

Powell spoke at a conference celebrating the 350th anniversary of the Riksbank, Sweden's equivalent of the Fed.

The Fed is also focused on making its actions transparent, Powell said, in order to bolster public support. That's increasingly important at a time when "trust in government and public institutions is at historic lows," he said.

Research has shown that an independent central bank typically does a better job regulating banks and the broader financial system, Powell said.

"There can be no macroeconomic stability without financial stability," he said.